

TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

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SUBJECT: Semi-annual Report on California Investments  
For Period Ending December 31, 2002

ITEM NUMBER: 8

ATTACHMENTS: 2

ACTION: \_\_\_\_\_

DATE OF MEETING: February 5, 2003

INFORMATION: X

PRESENTER: Christopher Ailman

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Executive Summary:

On October 10, 2001, the Investment Committee adopted the California Investment Policy, which established a goal of two percent of the portfolio to be invested in the underserved portions of the State. In accordance with that policy, staff presents this semi-annual report on the Fund's investments within California and within the underserved portions of the State. The information in the report covers the period ending December 31, 2002.

Background:

The Chief Investment Officer originally created this report in June of 2001, to provide the Committee with a perspective on the Fund's holding within the State. The report has become formalized with the adoption of the California Investment Policy. As with any of the Investment staff reports, the format can be revised and customized to meet the Committees desires.

In accordance with the Policy, the emerging portions of the State are described as follows: "California emerging markets investments shall focus on investment opportunities in traditionally underserved markets primarily located in California. For example, underserved markets would include urban and rural communities undergoing, or in need of, revitalization where there are assets (e.g. an available labor pool, underutilized infrastructure) conducive to business development."

The bulk of CalSTRS assets in U.S. Equity, Non-U.S., and U.S. corporate fixed income have direct, and in-direct, exposure into these locations, unfortunately, it is extremely difficult to slice out these exposures or even develop a crude estimation of their exposure. For example, our holdings in Wal-Mart, Safeway, PepsiCo, Kellogg, and 3M, Exxon, Chevron, and even Non-U.S. companies such as Royal Dutch Petroleum, Nokia, or Nestlé's have significant business exposure to these communities. In fact, these corporations often comprise an integral part of the fabric of these communities, however, measurement of the actual exposure of these large firms is difficult.

Staff has attempted to measure some of the exposure by looking at the companies with headquarters within the State; unfortunately the information gathered is also imperfect since many of these companies do a large portion of their business activity outside the State of California.

We have also listed the exposure to the largest publically traded employers within the State. However, the investments in underserved portions of California only cover the direct / private investments in the underserved areas. As a result, this report clearly understates the total CalSTRS investment exposure to the underserved markets of California.

#### Discussion:

All the investments listed in the report were made as part of the normal course of business. In accordance with the California Investment policy, this information was gathered in accordance with the CalSTRS Investment Objectives and with the singular primary purpose of receiving a maximum rate of return commensurate with the given level of risk. It is recognized that as an ancillary benefit, our investments help spur business activity and as a result, they provide economic growth and revitalization to California and it's underserved areas. These investments receive the same level of due diligence as all investments made by CalSTRS.

#### Conclusion

Semi-annual report: As noted on the attached table, nearly \$12 billion or 12.9 percent of the CalSTRS portfolio is invested in the State of California. This is the same percentage as June 30 numbers, however, the total dollar value declined slightly in line with the drop of the total value of the portfolio. The exposure increased from 10.4 percent on June 30, 2002. Please keep in mind, the overall dollar amount is still understated, because it includes a low estimation of the overall exposure with the largest portion of the CalSTRS assets invested through public equity and the broad fixed income portfolio.

Additionally, CalSTRS has \$1.77 billion, which represents 1.92 percent of the total CalSTRS portfolio invested in the underserved areas/emerging markets of California. With the recent allocations to both private equity and real estate, the sustained exposure to underserved California should grow rapidly in 2003.

Prepared on January 15, 2003 by:

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Christopher Ailman

Chief Investment Officer

## CalSTRS Investment Portfolio California Content

**As of December 31, 2002**

The CalSTRS U.S. public equity portfolio, the largest asset class within CalSTRS, has a very large exposure to California through many national corporations that are both major employers and major business within the State. Unfortunately, many companies do not break out their business activity by State, so the exposure for this asset class is a conservative estimation based on companies that are either incorporated or headquartered within the State.

(In Millions)

<b>Asset Class</b>	<b>Market Value</b>
Publicly traded equity (estimated)	\$4,830
Corporate fixed income (estimated)	\$1,316
Fixed Income – MBS	\$1,920
Individual Home Loans	\$477
Real Estate	\$1,424
Private Equity	\$486
Credit Enhancement	\$1,511
<b>Estimated California Exposure</b>	<b>\$11,965</b>
<b>% Of CalSTRS portfolio</b>	<b>12.94%</b>
<b>% Of CalSTRS portfolio invested in the bottom five asset classes</b>	<b>31.9%</b>

Investments in Underserved/Emerging Markets of California (in Millions)

<b>Asset Class</b>	<b>Market Value</b>
Fixed Income MBS	\$342.4
Individual Home Loans	\$62.1
Real Estate	\$342.4
Private Equity	\$21.4
Credit Enhancement	\$874.0
<b>Estimated Exposure to Underserved California</b>	<b>\$1,777.5</b>
<b>% Of CalSTRS portfolio</b>	<b>1.92%</b>
<b>% Of CalSTRS portfolio invested in the above asset classes</b>	<b>9.75%</b>

## **CalSTRS Investment Exposure 20 of the Largest Publicly Traded Employers in California**

The U.S. public equity and corporate fixed income portfolios have nearly \$2.4 billion invested with some of California's largest public employers. While this is not an exhaustive list, it does represent close to 2 million employees. The total investment exposure to California companies and employers far exceed \$10 billion. However, due to the difficulty in measuring the California content of most of the Fund's holdings in national and multi-multinational corporations, an exact figure cannot be generated. The following table lists the exposure to companies either headquartered or incorporated within California. The list clearly underestimates the overall exposure to the California economy within U.S., Non-U.S. and bond portfolios, which comprise the bulk of CalSTRS assets.

Data is based on public companies with 35,000 or more in sales revenue of \$1 billion or more.

<b>COMPANY</b>	<b>CalSTRS Investment</b>
Intel Corporation	\$402,306,566
Wells Fargo & Company	\$375,115,098
Cisco Systems Inc.	\$370,383,793
Chevron Texaco Corporation	\$310,846,975
Oracle Corporation	\$180,484,470
Hewlett Packard Company	\$172,524,721
Walt Disney Company	\$155,806,066
Northrop Grumman Corporation	\$153,231,419
Safeway Inc.	\$103,331,967
Tenet Healthcare Corporation	\$39,772,618
GAP Inc.	\$32,198,056
Hilton Hotels Corporation	\$29,555,096
Computer Sciences Corporation	\$23,730,125
Solelectron	\$9,949,766
Robert Half International Inc.	\$8,265,557
Sanmina – SCI Corporation	\$7,427,318
Fluor Corporation (New)	\$7,167,804
Dole Food Inc.	\$4,237,518
Jack in the Box	\$3,824,289
ABM Industries Inc.	\$1,679,859
<b>TOTAL</b>	<b>\$2,391,839,081</b>

Source: Public Reference USA Database  
State Street Bank